

ICPS newsletter

Reform of the Ukrainian Licensing System: One Head Is Cut off — Two Are Growing

The Presidential Decree on State Regulation of Export, Import, Wholesale and Retail Trade in Raw and Refined Oil signed by Leonid Kuchma on 25 January 1999 once again widened the list of business activities subject to licensing. In spite of numerous declarations of the President and the government about the existence of sharp need for eliminating administrative obstacles for the development of entrepreneurship, new barriers for business are being erected in Ukraine. ICPS deregulation experts Andri Palianytsia and Serhi Segeda analysed the situation in the Ukrainian licensing system.

The reform agenda remains nothing more than a declaration because the reforms are not fulfilled consistently. The situation in the Ukrainian licensing system can be a good example of how what is said deviates from what is done. During recent years, many Ukrainian politicians, government officials and businessmen would argue that too many types of licensed business activities and unclear licence regulations posed a high administrative barrier for business and eroded competitiveness of Ukrainian goods and services. The necessity of change in this sector of government was perceived by the government and Verhovna Rada and these changes were provided for in the legislation and regulations.

A new wording of Article 4 of the Entrepreneurship Law of Ukraine was adopted which cut the number of licensed business activities from 112 to 42 and streamlined the licence granting procedure. A new state body was created — the Licensing Panel of Ukraine with the mission of withstanding the introduction of new licence requirements without sound justification. Functions of the Licensing Panel also included supervision of the activities of licensing agencies.

Thus reforms did take place on paper. And the World Bank expert considered this to be the fulfilment of the requirements for financing the Ukrainian government.

Unfortunately, deviations from declared principles began with the adoption of the first resolution of the Cabinet of Ministers of Ukraine further specifying the licensing procedure established by the Entrepreneurship Law of Ukraine. This resolution #1020 adopted on 3 July 1998 and entitled "On Licensing Business Activities" set concrete licensing procedures. It mentioned 54 not 42 types of business activities subject to licensing.

Article 4 of the Entrepreneurship Law of Ukraine provides a full and exhaustive list of business activities subject to licensing. Thus new licensed types of business activities can be introduced only by means of amending this Law and other legislative acts specifying business activities subject to licensing.

The changes introduced by the mentioned resolution were not essential and touched only a small number of business entities. That is why the reaction of the Ukrainian media and Ukraine's foreign creditors on its adoption was almost unnoticeable.

But this instance proved not an exclusion. The Presidential Decree "On the Introduction of Licensing for Business Entities Active in the Sector of Natural Monopolies" (#1257/98 signed on 17 November 1998) added eight new types of activities to the list of licensed business activities with the aim of strengthening the

Last Week

Young Economists Contest: First Winners. The results of the All-Ukrainian Contest of Young Economists in the field of research of the Development of Economic Reforms in Ukraine were announced. The first place was given to post-graduate student of Taras Shevchenko Kyiv University Serhi Varga for the working paper entitled "The State Regional Financial Policy in Ukraine". The winner will go on an internship abroad, with expenses paid for by the Renaissance Foundation. The runners-up were post-graduate student of the International Scientific and Technical University (Mykolaiv, Ukraine) Denis Nizalov (subject: "Management of Restructuring of Ukrainian Enterprises") and post-graduate student of Taras Shevchenko Kyiv University Dmytro Ostapenko (subject: "Reform of the Ukrainian Social Safety Net Finances"). They received 1000 hryvnias each awarded by Nadra bank.

The contestants' papers are available on request at the Organising Committee (akyyak@icps.kiev.ua).

Results in three other directions of the Contest — "Reform of the Banking System", "Creation of Favourable Investment Regime in Ukraine" and "Property Rights Transformation — will be announced within next months. The papers submitted by the contestants are now analysed and evaluated by experts.

This Week

State Finances and Economic Growth. The coming ICPS Tuesday Macroeconomics Seminar to be held on 9 February will be devoted to the issue "Public Finance Strategies for Economic Growth". The speaker will be Senior Economist of RAND Corporation John Thissen.

state control over natural monopolies. The Presidential Decree State Regulation of Export, Import, Wholesale and Retail Trade in Raw and Refined Oil (#46/99 signed on 25 January 1999) introduced licensing of export, import and trade in oil. And whereas the legitimacy of such decisions can be partly advocated with the reference to point 4 of Section 15 of the Transition Provisions of the Constitution of Ukraine, licensing of sale of vehicles introduced by the Resolution of the Cabinet of Ministers of Ukraine #1388 of 7 September 1998 is unlawful.

Though it is the Cabinet of Ministers of Ukraine which must abide by the Laws of Ukraine.

To-day, 72 types of business activities are subject to licensing. But in fact this figure is considerably bigger. Thus, 800 operations require licences in construction where the term "types of works" (which means services) is used. It can be noticed that activities and operations are different in this country. How lucky are Ukrainian businessmen who work in sectors where activities are not operations.

The number of licensed types of business activities did not reduced in a year after the adoption of the new licensing procedure. Ukrainians can observe the phenomenon described in mythology: one head of the beast is cut off — two are growing, and the hero has to start from scratch.

We have to admit that the policy of eliminating administrative barriers for business declared by the President has failed. Reality proves just the opposite — entrepreneurship receives less and less support from the state.

Government Policy Analysts Need New Decision Preparation Techniques

The Macroeconomics Seminar held in the International Centre for Policy Studies last Tuesday was devoted to methodological support of government's economic reports. This subject seemed interesting to a limited number of experts and governmental officials. But this issue provoked a heated discussion. A real cause of low quality of the government's decisions was found — preservation of the soviet system of decision-making when an analyst is not able to propose and evaluate alternative decisions.

Head of the Economic Analysis Division of the Ministry of Finance of Ukraine Evgen Frolov said at the seminar that preparation of the government's reports was impeded by inadequate levels of methodological skills of governmental analysts. In other words, state officials do not know how to compose a report. This is caused by too close connection of politics and analytical work within the Ukrainian government. Most government officials try if not to support their bosses' opinion then at least not to contradict it in their reports with no attention to the necessity of analysing alternative ways of solving concrete economic problems.

As director of the International Centre for Policy Studies Mrs Vira Nanivska put it during the seminar, the problem actually was that government officials in the Soviet Union performed other tasks then those in developed democracies. In the totalitarian system analysts did not have the right to compare alternative policies since all political decisions were already made and dictated by political and ideological dogmas. Under such circumstances even consideration of alternative policies could have fatal consequences for the analyst. The historical reality which influenced the formation of the Ukrainian bureaucracy

required an official should consider only the policy-maker's opinion and exclude any new approach as early as the report was prepared. This problem could be overcome only by means of changing the entire approach of the government to making political decisions. In a democratic state where different political parties exist and freedom of the press is enforced, the government must have alternative ways of solving government problems and analysis of consequences of their implementation.

ICPS consultant Diana Cook who worked as economist at the Ministry of Finance of New Zealand mentioned in her speech at the seminar that in a market economy policy analysis was about informing decisions thus helping policy makers make good decisions. It was not just about implementing decisions. Helping policy makers make good decisions was very important. These missions are interconnected. When you implement a policy you learn lessons that help in designing future policies to address the same or other issues.

As policy reports are intended to inform a decision, they are different to academic research. While research may provide

interesting insights, it is not always specific to policy problems or directly helps policy makers to address their problems. Advice needs to be specific to the problem and provide solutions that are within the control of policy makers. When designing policy reports an analyst should keep this objective of informing decisions in mind. This will help to design the report in an effective way. Reports need to explain problems, identify objectives and alternative ways of reaching those objectives. They must evaluate alternatives and make a recommendation.

In particular, an analyst's role is not to just provide lots of data to policy makers. The job is to interpret that data. Politicians are busy people and need someone to do that job for them. An analyst needs to put the data in context and tell what it means. Does it signal a problem? What should be done about it?

Diana Cook also mentioned an important detail: politicians tend to focus on the short term. They face a number of incentives to focus on the short term. As a policy analyst, one of your roles is to offset this bias by stressing the long-term consequences of alternative decisions in your communication with policy makers.

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